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SUBJECT: Tajikistan's National Budget - The Best Parts are Hidden

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11. (SBU) Summary: The Government's 2008 budget is much larger than last year's, and assumes much greater revenues. Developed in a totally non-transparent manner, the document hides the true extent of presidential spending. End Summary.

12. (U) In November 2007 media conveyed a brief statement from the Government noting that Parliament had "endorsed" the 2008 budget, and giving a few snippets of information showing that it would be considerably larger than the 2007 budget, and would include big increases in spending on health and education. The Government did not release the actual budgetary legislation, but the embassy recently got a look at this document, all fourteen pages of it (gulp). What was most telling was its vagueness. Tajikistan's 2008 budget is 38 percent larger than the 2007 budget, reaching \$1.3 billion. It is 3.7 times higher than the budget of 2002. It includes a budget deficit of \$21 million, to be covered by privatization and treasury securities and deposits of the government at the National Bank of Tajikistan. The 2008 budget to GDP ratio is 30.7 percent. Budget revenue per capita is 622 Somoni, or \$177.

13. (SBU) The Government projects Tajikistan's GDP for 2008 to be 14.8 billion Somoni, or approximately \$3.5 billion. However, this does not include the untaxed "grey" economy. The grey economy includes all unreported company operations and trade. Almost all companies in Tajikistan practice double bookkeeping to avoid taxes and customs. Another major element of the grey economy is remittances by labor migrants in Russia and Kazakhstan; migrants transferred officially about \$1.3 billion in 2007 through the Tajik Banking system, accounting for nearly 40 percent of that year's GDP. The true size of remittances is probably larger. The government of course does not capture money made from the transit of illegal narcotics from Afghanistan - which may account for as much as 20 percent of actual GDP.

14. (SBU) Taxes and non-tax collections are the main source of government revenue, accounting for 63 percent of the budget. Tax collection will have to increase 66 percent on last year's collection to meet the targets of 2008 budget. This will increase pressure on small and medium businesses, and on anything which is profitable and traceable, notably the mobile telephone sector. Investment project aid from international financial institutions such as the World Bank accounts for 12.7 percent of the budget, or \$163 million (this includes a portion of Chinese \$1 billion Government loan given to Tajikistan in 2006).

15. (SBU) Some Key Items - The government is going to spend 211 million Somoni (\$61 million) for defense. This is 4.6 percent of the 2008 budget, and 46 percent more than in 2007. On education the government of Tajikistan allocated 691 million Somoni (\$198 million) or 15 percent of the budget. This is a 37 percent increase since last year. On health the budget allots 255 million Somoni (\$73 million) or 5.6 percent of budget. It is a 43 percent increase since 2007. This is the government's "socially oriented" budget, which does increase spending on health and education, but not nearly enough to meet Tajikistan's educational and health needs. For example, at present there are 1.7 million students in Tajikistan's schools; the budget allots less than 50 cents per day per student; Qschools; the budget allots less than 50 cents per day per student; this includes salaries for teachers, building maintenance, buying new books and development of new education materials. The health sector is also in deep crisis; since independence it has become common practice for those in need of treatment, including surgery, to pay for it themselves; officially it's free. Many government officials and businessmen prefer medical treatment outside Tajikistan, in Moscow, Germany or Israel. Back in Tajikistan in the current winter power crisis, despite government claims that most hospitals have generators, we receive reports that it is common for babies to be born by candlelight, in unheated maternity clinics.

16. (SBU) The most interesting sections of the Tajik budget are those containing "other" or "administration expenses". They include the following: for "state authorities and management" - \$101 million [which may partly cover salaries and expenses for ministries, but every ministry's portion of the budget already includes salaries]; "other economic sectors and service" - \$3.7 million; "other expenditures" - \$82 million; "other law enforcement" - \$20.7 million; "unexpected expenditures of Government" - \$5.7million; "other expenses not classified as economic sectors" - \$125 million, and finally the "President's Reserve Fund" - \$17.2 million. In total, the budget for generic "other" expenses and administration is around \$355 million, or 28 percent of the total budget.

17. (SBU) In a February 7 meeting to elicit donor contributions for
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the ongoing energy sector shortfall, Ambassador asked Foreign Minister Zarifi if the government planned to re-prioritize funding away from expensive palaces, dachas and other show projects to cover the energy needs of the population. Zarifi explained that we should not worry about such projects since they are not part of the government's budget, but instead are funded by "sponsors." Zarifi couldn't or wouldn't answer the follow-on question: Why don't these "sponsors" pay to import fuel oil or improve hydropower? Zarifi argued that the palaces were "necessary" for Tajikistan to play a role in regional cooperation, to enhance political prestige, and to "show the people of Tajikistan that the country is respected internationally." "Paris has its Eiffel Tower, after all," he added. Zarifi's comments let slip a widely known secret - that much government spending is completely off-budget where the international financial institutions cannot scrutinize it.

18. (SBU) Comment - Darkness: As in the past, the details of the budget remain closely held by the Presidential administration. The document is developed by the presidency, and passed by Parliament without debate. The large undefined "other expenses" suggest that the document is designed as much to hide as to inform. There are no public hearings on the budget, and Tajik civil society does not participate in or otherwise contribute to budget discussions. We called Parliament Deputy Gulchehra Tursunovna Bozorova, who chairs the Budget, Tax and Economy Committee, to ask her to discuss the budget, but she declined to speak with us without first obtaining written permission from the Speaker of Parliament. (Bozorova is an alumna of the recent Open World exchange for Tajik parliamentarians.)

19. (SBU) Comment Continued: Helping to keep the wider public from knowing how its money is spent, Tajik mass media avoid any deep analysis of the state budget, and barely mention it at all. This is in part self-censorship, but also reflects the media's lack of financial specialists. End Comment.

